United States
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Foreign Agricultural Service
July 1986

Foreign Agriculture

Spain in the EC: Who Pays the Price?

Marketing News

U.S. Wheat Assists Indian Flour Milling Industry

To upgrade and diversify the diets of its people, as well as to increase consumption of wheat-based foods, the Indian government is encouraging local millers and bakers to develop their industries.

U.S. Wheat Associates is playing a major role in helping bring modern flour milling technology and information to India. Over the years, U.S. Wheat has sponsored a number of seminars aimed at increasing not only the quality of Indian-produced wheat flour, but also at boosting the efficiency of Indian flour mills, which last year operated at only 56 percent of capacity.

"We want to help provide the Indian milling industry with the latest technical information and train millers on the latest equipment," said Pat Kandhari, U.S. Wheat's director in India. "At the same time, we will continue to work with Indian bakers to help them raise the quality of wheat products they produce."

NRA Sponsors Market Development Activities in China

The **National Renderers Association (NRA)** hosted a two-week study program for four representatives of the China National Cereals, Oils and Foodstuffs Import and Export Corporation (CEROILS) this past spring. The team had the opportunity to assess the U.S. rendering industry through visits with industry members and facilities. The Chinese market for tallow is a large one, with current imports of between 40,000 and 50,000 metric tons per year, of which the United States supplies only 1,000 tons. Now that the Chinese are acquainted with the quality and low cost of U.S. tallow, exports could increase.

Last spring, the NRA also sponsored a feed milling seminar in China, covering the addition of fat to feed ingredients. The seminar was in cooperation with the **U.S. Feed Grains Council,** which is building a feed mill there. The seminar was the second in a series of such programs sponsored by NRA to complement the building of the feed mill.

Taiwan Duck Production Increases U.S. Feed Grains Demand

Recognizing the potential for growth in feed grain use in Taiwan, the **U.S. Feed Grains Council** implemented a duck feeding project there in 1977. A recent evaluation of the Council's program to improve duck nutrition presents an encouraging picture. Today, more than 70 percent of egg-producing ducks and 85 percent of meat-producing ducks are on pelleted formula feed, with the percentage rate still climbing. The Council's input to the program can be credited for the use of nearly 170,000 tons of feed grains in Taiwan during the 1977 to 1985 period. The total estimated increase in U.S. grain sales attributed to the program exceeds $33 million. The direct dollar impact on U.S. feed grain exports for every dollar invested in this project was $339.

Traditionally, farmers fed ducks a "trial and error" mixture of rice, scraps, vegetables, raw fish and expensive imported feed meal, resulting in less healthy and less productive birds. The Council funded research in duck nutrition, technical advice from U.S. duck nutrition experts and seminars to disseminate feeding information to farmers and feed industries. Through the research, a standardized system of feed formulations was developed. These feeds were pelleted to facilitate handling and, most importantly, to reduce feed loss.

An added benefit has been seen as fish farmers also began using the pelleted formula in 1980. (Farmers often raise ducks and fish in the same ponds.) Feed grains now make up 10 percent of formula fish feed in Taiwan. And 50 percent of the growth in formula feed for fish has occurred in conjunction with duck feeding. In short, the duck program has led to a 7,700-ton increase of feed grains for fish since 1980.

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Spain in the EC: Who Pays the Price of Enlargement?

By Edmund L. Nichols

This month, ***Foreign Agriculture*** *looks at Spain—its accession to the European Community, its agriculture and the likely implications for U.S. agricultural exports to this market. It also examines what could be one of the country's thorniest issues—its abundance of wine.* ***Foreign Agriculture*** *will look at the impact of accession on Portugal in a future issue.*

Spain's entry into the European Community (EC) on January 1 was one of the primary agricultural events of the year for Europe. It was significant for world agricultural trade as well.

For all the celebration that attends the long-anticipated economic and political linkage of the Iberian Peninsula with the rest of Western Europe, there are prices to be paid—by Spanish farmers, by the EC itself and a disproportionate amount by Spain's third-country trading partners, notably the United States.

With the implementation of the EC's Common Agricultural Policy (CAP) in Iberia, the EC's production and marketing schemes and trade regimentation will influence nearly half of the free world's cash commerce in agriculture.

There is little wonder why the United States and other major agricultural exporting countries are reacting strongly to the implications of the terms of EC enlargement on established market access and General Agreement on Tariffs and Trade (GATT)-bound trading rights which have been affected.

A Billion-Dollar Market in the Balance

At its peak in 1982, Spain was the sixth largest customer ($1.8 billion) for U.S. farm exports. Although improved domestic production, increased competition from other suppliers (particularly for soybeans) and the strong dollar affected U.S. exports, 1985 sales still amounted to $1 billion.

As a result of accession, however, the United States will be disadvantaged on exports of corn and soybeans—the two major Spanish imports from the United States.

Corn, worth $325 million, was the top U.S. export to Spain in 1985. Shipments have averaged at least $400 million annually over the past 10 years. Because of the introduction in March 1985 of the EC variable levy on grains, U.S. feed grain exports to Spain are expected to decline drastically.

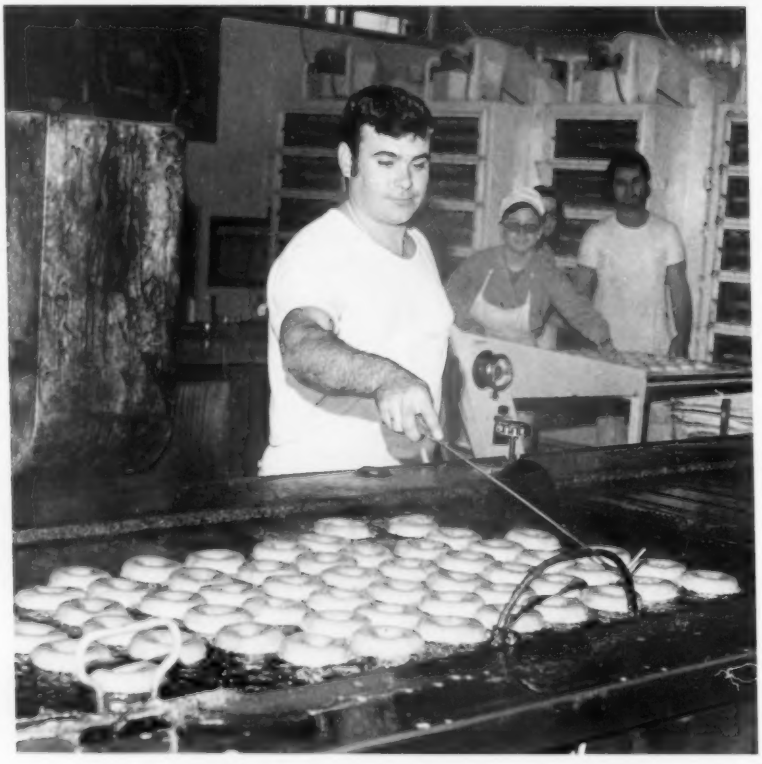
A transitional arrangement providing for continued access for U.S. feed grains would have been logical—not only to U.S. exporters but also to Spanish livestock producers whose production costs are going up markedly as EC grain prices take hold.

Paradoxically, the EC accession agreement does not eliminate Spain's limitation on domestic consumption of soybean oil, which has had a decided effect on the quantity of U.S. soybeans imported. Over the five-year transition period, market access for soybeans in Spain will continue to be more restricted than in the Community at large.

Feed Grain Users Not Consulted

As the major feed grain-deficit country in Europe, Spain was expected to insist on continued access to feed ingredients at reasonable prices for the good of its own animal sector.

For whatever reason, neither the affected dairy, livestock and poultry sectors nor industrial users of corn were consulted by Spanish negotiators working on terms of EC accession.



Commodity groups and farm organizations were not consulted on the enlargement negotiations process. Although these groups eventually did complain about many of the terms of accession which work to their disadvantage, they did so after the treaty was signed.

As a conciliation to milk and meat producers, who sensed the strong threat of competition from efficient, grain-rich northern European producers, Spain managed to achieve some safeguards toward limiting imports of these products.

Quota Effects Not Fully Known

Although the specifics of the special trade mechanisms that will put quotas on some products are not yet fully known, it appears that there will be a negative spillover effect on such third-country exporters as the United States.

For example, Spain recently deferred to the Community for guidelines before allowing import licenses for U.S. edible meat offals. In recent years, the United States exported 2,000 metric tons of these products annually to Spain.

The United States will continue to insist on its rights for market access that, in this case, should be more liberal, not more restrictive, following accession.

U.S. Reviewing Its Options

At present, the United States is considering its options on how to respond to the coolness with which the EC Commission, with the apparent support of member countries, has turned down the U.S. request to maintain fair market access in Spain for U.S. corn or to be fairly compensated for the trade loss.

This elicited a response in the form of a March 31 White House announcement which reiterated the U.S. request for compensation negotiations for the breached feed grain bindings by July 1. It also indicated U.S. intentions to raise duties on a number of EC agricultural imports in the absence of such negotiations.

The EC's response has been that, knowing all along what the terms of accession were, the United States should have protested sooner. The EC has taken the position it took at the time of Greece's accession: it is due credit because of overall liberalized trade regulations which it says will improve U.S. access to Spanish markets for industrial products.

The United States denied this "credit" concept when Greece joined the EC and denies it now. The GATT is clear in saying that the United States does not have to accept the compensation offered.

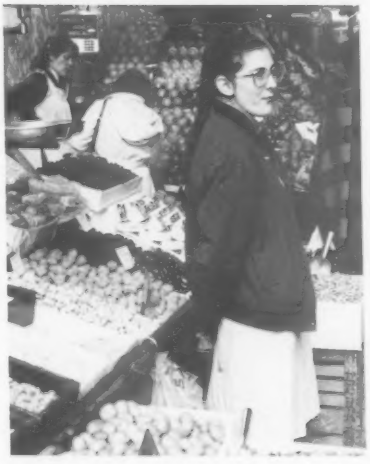
There is a cost to the EC's adding 2 million more farms and 24 percent more farmers to its rolls. There is also a cost for taking on the complexities of an abundance of Mediterranean produce.

At the same time, the EC has clearly bought itself a new marketplace for products produced in northern Community countries. And the EC has been less than generous with Spain's production quotas on such shared products as sugar.

No Net Gains After Accession

There are no immediately apparent advantages for U.S. trade access on any food and agriculture-related products as a result of accession. If the case of offals is any benchmark, trade access has become more complicated.

Nonetheless, U.S. agricultural exports to Spain will remain important. The U.S. goal will be to keep Spain in the billion-dollar-market column.

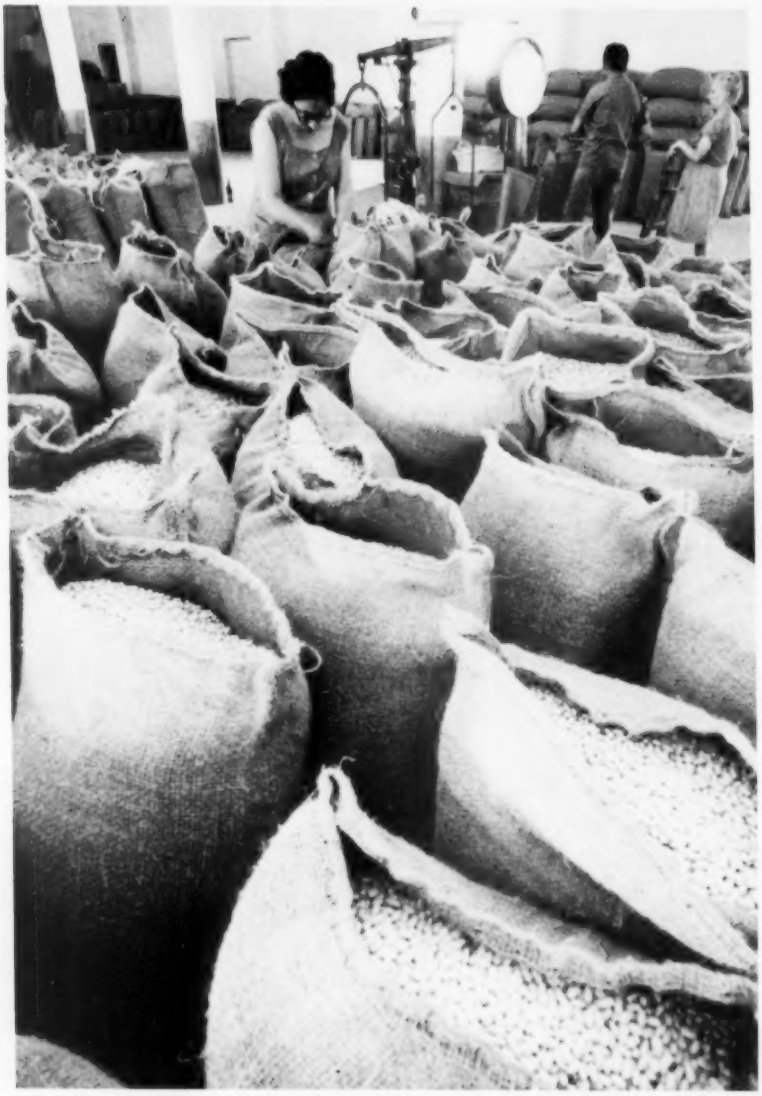


The Outlook for 1986

The outlook for U.S. soybean exports to Spain in 1986 is an improved one. As for corn, even at higher prices, there will be some demand for U.S. corn because of its preference for certain uses. With continued market development efforts, markets can be sustained for forestry products, pulses and seed. Enlargement will be costly to the United States in terms of exports, but U.S. exporters must adjust to the changes and do their best to minimize the cost. ■

The author is the U.S. agricultural counselor in Madrid.

New Market Outlook as Spain Joins the EC



Black Star

By Nancy Hirschhorn

For the past several years, Spain has ranked consistently among the top 10 importers of U.S. agricultural commodities.

Although sales dropped slightly last year, declining to around $1 billion, U.S. farm exports to Spain accounted for over one-quarter of Spain's total imports. The small drop in purchases was due to reduced demand for soybeans, feed grains and leaf tobacco and the appreciation of the U.S. dollar.

Among the U.S. commodity leaders on the Spanish market last year were: 2.5 million metric tons of corn valued at $325 million; 1.1 million tons of soybeans, valued at $265 million; 22,500 tons of leaf tobacco worth $179 million; 31,200 tons of cotton valued at $46 million; and 62,900 tons of forest products worth $31 million. Other leading imports from the United States included peanuts and variety meats.

Coping With EC Policies

The future of U.S. agricultural exports to Spain will be greatly affected by implementation of the EC's Common Agricultural Policy and its system of variable import levies on grains.

Spain has maintained relatively high tariffs for certain agricultural products. In accordance with the EC Treaty of Accession on March 1, 1986, however, Spain has begun to modify its tariffs.

Spanish tariffs on imports from other EC countries will be dismantled progressively over seven years for most agricultural products. Tariffs on fresh fruits and vegetables and olive oil will be phased out over the next 10 years. Spain will gradually align its tariffs with the EC's Common Customs Tariff (CCT) for imports from third countries.

Spain's adoption of the CCT is expected to result in greater market access for many products for which Spain has maintained high-tariff and nontariff barriers.

In the case of some products, however, membership in the EC will require Spain to implement the EC system of variable levies. The levies will raise the level of protection on such key commodities as corn and sorghum.

Market Opportunities at a Glance

Soybeans and Meal
Although facing increased competition from sunflowerseed production, Spain's soybean meal consumption will remain high but less than in the recent past. This will be reflected in imports of about 2.1 million tons of beans and 750,000 tons of soybean meal.

Restrictions on soybean oil use, however, will continue in the short run to result in the exportation of most of the oil produced in Spain, along with substantial quantities of meal.

Feed Grains
Implementation of the EC variable levy will reduce Spanish imports of U.S. corn significantly. These imports have averaged more than 2 million tons a year for the past five years.

Wheat
The liberalization of Spanish wheat trade should open up a market for U.S. exports of high-protein wheats. At the same time, the EC accession treaty establishes target quantities to be imported from the EC during the next four years.

Rice
Spain will remain an importer of about 30,000 tons of paddy rice annually for milling and re-export. Spain will export at least twice that amount.

Pulses
Although Spain is already a substantial market for U.S. lentils, beans and peas (imports from the United States exceed 7,000 tons annually), potential remains for expanding the market and the U.S. share.

Tobacco
Spain is a large market for U.S. tobacco, having purchased 22,500 tons in 1985. With growing demand for "light" cigarettes, the potential for increased sales of U.S. leaf is good despite Spain's efforts to increase its production of flue-cured tobacco.

Cotton
While prospects are for increased production, cotton imports should continue to be roughly 50,000 tons. The U.S. share has hovered around 30 percent.

Tallow
Tallow imports from the United States are expected to continue at a level exceeding 35,000 tons annually. Imported tallow is used in the soap, chemical and feed industries.

Feed use is expected to increase in conjunction with the greater use of byproducts in rations. Over time, demand for high-quality edible tallow may grow.

Hides
Spain is a major importer of hides and skins, with purchases from the United States totaling $24 million in 1985. Competitive pricing and promotion could increase this figure.

Nuts
A growing market for edible peanuts, Spain imports over 25,000 tons annually, half of which come from the United States. In addition, Spain is usually a good market for pecans and walnuts. Total 1985 imports were 12,000 tons, with the United States accounting for 90 percent of the market.

The outlook is excellent for future exports of peanuts and walnuts, although the situation currently is complicated by the EC's special tariff imposed in response to U.S. actions on pasta and citrus. Spain has been included in USDA's targeted export promotion program for walnuts.

Dried Fruit
U.S. prune and raisin sales to Spain totaled over 2,000 tons in 1985, and growth in this market is possible.

Consumer-Ready Products
Spain is importing close to $500 million of miscellaneous consumer-ready food products, and there are opportunities to increase the U.S. share with appropriate promotion. U.S. exports to Spain exceed $100 million and should grow after Spain's integration into the EC.

Livestock and Meat
Imports of beef and variety meats will be subject to EC quotas. These quotas will specify maximum annual amounts to be imported from other EC countries under the supplementary trade mechanism, as well as those from third countries. Live animal imports also will be subject to a quota, as well as restrictive EC health regulations.

Imports of pork will be liberalized, subject to EC threshold prices.

Forest Products
Spanish imports of forest products are expected to remain strong. Imports in 1985 were about 1.6 million tons. ■

Accession Will Have Varying Effects

The Spain-EC Treaty of Accession includes a system of special trade mechanisms (STM's) designed to prevent Spain from being deluged with competitive products from other EC countries.

The treaty also provides a link in the STM scheme for third-country imports, and this could disadvantage some U.S. exports, possibly horticultural products and meat. The U.S. agricultural counselor has already engaged Spanish trade officials on this issue.

Spain's nontariff import controls, like its quantitative limitations and licensing requirements applying to the Peninsula and the Balearic Islands, will be replaced by a system which is currently being developed.

Global import quotas will disappear and the existing licensing system for the Peninsula and the Balearic Islands will be replaced by one similar to that used in the EC.

Nontariff controls for imports of agricultural products into the Canary Islands, Ceuta and Melilla will remain unchanged. However, all three areas will continue to enjoy the privileges of a free-trade zone.

Imports from Portugal will be subject to import controls in a range somewhere between those applied to EC countries and third countries.

Quotas To Be Relaxed

Apart from its commitments to the EC, Spain's major trade barriers affecting U.S. imports are the domestic consumption quota for soybean oil and the minimum content requirement of domestic leaf for cigarettes.

The Spanish government is expected to gradually increase the quota of soybean oil which may be consumed domestically from the current 90,000-ton level.

On the other hand, Spain's requirement that locally produced cigarettes are to contain minumum percentages of domestic leaf is not expected to disappear in the transition period following accession.

U.S. Teamwork Promotes Exports

Stationed in Madrid, the U.S. agricultural counselor and staff work to expand the market for U.S. exports by carrying out promotional activities and by working with U.S. market development cooperators active in Spain.

These cooperators are commodity associations or regional trade groups that work together with USDA's Foreign Agricultural Service on generic promotions of U.S. agricultural commodities.

Currently, 12 market development cooperators have active programs in Spain. And two cooperators—the U.S. Feed Grains Council and the American Soybean Association—have permanent offices there.

In 1985, cooperators were successful in promoting a number of commodities. For example, the Southern United States Trade Association worked with the agricultural counselor to arrange promotional meetings for a forest products trade team. Meetings scheduled with Spanish trade associations, importers and end-users in Madrid and Valencia resulted in substantial business transactions.

The American Soybean Association has been working in Spain to improve soybean meal utilization by the mixed feed industry. The Association also introduced new industrial uses of soybean oil and provided technical assistance on the use of soybean meal in aquaculture.

The U.S. Feed Grains Council carried out a number of activities to assist the Spanish livestock sector in improving feeding and management practices. Efforts resulted in increased grain consumption.

Other cooperators active in the Spanish market include: The USA Dry Pea and Lentil Council, Holstein-Friesian Association, U.S. Wheat Associates, Cotton Council International, Cotton Incorporated, National Peanut Council, National Renderers Association, Tobacco Associates/Burley Export Association and Mohair Council of America. ■

The author is the U.S. agricultural attache in Madrid.

Spain's Accession Gives EC Farming New Dimension

By Jose E. Vidal

Spain's accession to the European Community (EC) earlier this year significantly changed the EC agricultural situation.

Agriculture was at the heart of the long, difficult accession negotiations for good reason. The EC already had embarked on a reform of its own agricultural policy. Including Spain meant the addition to the Community's agricultural base of over 2 million farms, a labor force of 2 million and more than 27 million hectares, as well as an increase of 38 million consumers.

With the addition of Spain, the amount of land under cultivation in the Community increased by about 27 percent; the number of farms, by over 32 percent; and the number of jobs depending on agriculture, by 24 percent.

These major changes are comparable to those resulting from the first two enlargements together.[1]

The Community's new, large agricultural area has a higher proportion of small farms and lower average efficiency per person engaged in agriculture compared with other sectors.

Farming Important to Spain's Economy

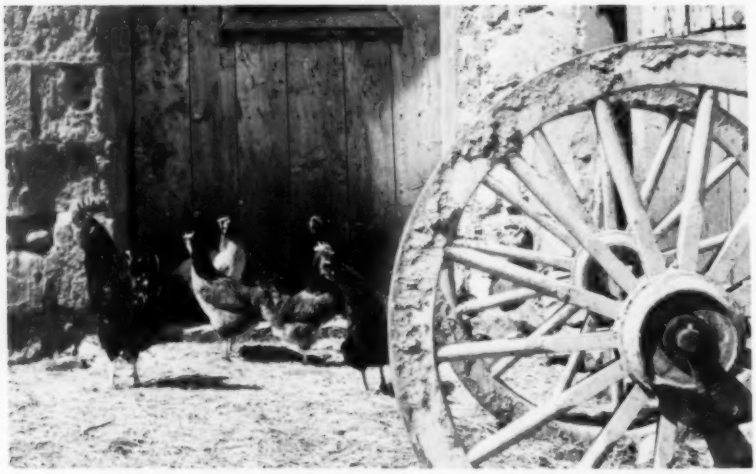
Spain has the second largest farming area in the EC-12 and depends on agriculture for around 7 percent of its gross domestic product.

Spanish agriculture is important in terms of jobs and trade. It employs 18 percent of the nation's labor force, compared to 7.5 percent in the EC-10, and accounts for about 16 percent of total exports, compared to 9 percent for the rest of the EC.

The agriculture of Spain is similar to that of the south of France, the Italian Mezzogiorno and Greece. Crop farming accounts for over 56 percent of total agricultural output compared with 43 percent in the EC-10. Livestock production makes up 43 percent of total agricultural output value against 57 percent in the EC-10.

[1]The EC increased its membership from the original six countries—Belgium, France, Germany, Italy, Luxembourg and the Netherlands—to nine in 1973 with the addition of Denmark, Ireland and the United Kingdom, and to 10 in 1981 with the addition of Greece. Spain and Portugal joined the EC in 1986.

Black Star



Spain is something of a microcosm of agricultural production. It has the same proportion of land under grain production as does the EC-10, but southern-climate crops—vines, olive trees, fruit and vegetables, rice, flowers and ornamental plants and sunflowerseeds—are far more important. They represent one-fourth of total agricultural land use, but only 11 percent in the EC-10. Most of this difference is accounted for by vines and olive trees.

Crops such as citrus, pulses and almonds that are of relatively minor importance in the EC-10 occupy a prominent position in Spain. Conversely, crops of major importance in northern EC countries, such as sugarbeets and fodder crops, are considerably less important in Spain.

Sheep, goat and pig production in Spain is much the same as in the rest of the EC, but cattle numbers are considerably smaller. Expansion of Spain's livestock industry is limited by inadequate infrastructure. However, Spain does have fairly efficient pig and poultry industries largely based on the use of corn and protein meals—notably soybean meal—for feed.

Spain is heavily wooded (a third of the total area compared to only a fifth in the EC-10) and the amount of land permanently under grass is substantially smaller than in most northern EC member states.

Tough Conditions for Farming

Although Spanish agriculture is big, it still has a long way to go to reach its optimum degree of productivity.

Spanish farmers have to contend with natural conditions that are often unfavorable—mountainous terrain, poor soils in many regions and inadequate or uneven rainfall. Small farms and insufficient use of fertilizer and mechanization also contribute to lower productivity.

Irrigation, a key factor in increasing productivity in Mediterranean agriculture, is somewhat unevenly developed. Six of the 17 autonomous regions of Spain (Andalusia, Aragon, Valencia, Catalonia, Extremadura and Murcia) account for about 70 percent of the total area under irrigation.

In all, about two-thirds of the nation's farmland is irrigated. Cash crops such as fruit and vegetables, flowers, cotton, sunflowerseed and corn are produced on this land. Owing to scarcity of water, irrigation of vineyards is prohibited.

Spanish agriculture has considerable potential for productivity gains. Such gains could be derived from expanded irrigation, consolidation and restructuring of farms, increased use of modern production techniques, and the use of at least a part of the 4.8 million hectares of fallow land which represent 17.5 percent of the agricultural area.

Complementary Productivity

To some extent, the agricultures of the EC-10 and Spain complement one another. The EC-10 has a surplus of grains, sugar, potatoes, meat, milk and dairy products, whereas Spain is a net importer of most of these commodities.

Spain, on the other hand, is a large producer of oranges, tangerines, table grapes and nuts, of which the EC-10 is a net importer. However, if production levels remain as they were before enlargement, Community surpluses of olive oil, rice, certain fruits and vegetables, processed tomatoes and wine could well arise or increase.

Special Transition Measures

Since Spain does not fit easily into programs of the Common Agricultural Policy (CAP), its integration will be gradual. Customs duties are to be abolished in stages, while price and subsidy levels will rise gradually to those of the rest of the Community. An exception is the immediate application of the EC variable levy on grain imports, which is to the detriment of U.S. corn exports to grain-deficit Spain.

As with previous enlargements of the Community, price gaps during the transition will be offset by "accession compensatory amounts," to adjust the price of commodities moving between new and old member states.

The basic transition measures, spread over seven years, were not considered sufficient for a range of sensitive products whose too-rapid integration into the CAP would risk the disruption of the markets of one of the partner countries.

Special transition measures for such cases often extend over 10 years. Thus, it will be 1996 before Spanish farmers are fully integrated into the CAP. Special transition measures cover:

Wine. Community wine market management rules apply to Spain from the outset. To reduce the risk of market disturbance, a specific regulating amount will offset the difference between Spanish and EC prices during the seven-year transition.

A reference ceiling has been established for Spanish wine production. Once it is exceeded, distillation of the surplus is obligatory.

Finally, a complementary trade mechanism sets import guide levels, allowing an agreed and gradual expansion from traditional trade patterns. This is intended to ensure an orderly opening of markets and, if necessary, rapid control measures.

Olive oil and other fats and oils. The scale of Spanish production and its high degree of protection required a 10-year transition period. To avoid building surpluses which threatened to be substantial, Spanish import controls are to be maintained for five years on oilseeds and olive oil. Community rules are expected to be revised soon.

Fruit and vegetables. In the first four years of the 10-year transition, Spain is to create structures which conform to Community rules. Other producers in the EC also will adapt to the new market conditions.

During this period, trading restrictions will remain close to those applied before enlargement. Tariffs will begin to be dismantled, but Community prices will not apply in Spain until the second progressive six-year phase. The complementary trade mechanism will also apply in this sector.

Other products. Milk and dairy products, beef and soft wheat are among northern EC-produced products which cause problems for Spain. Here again, the complementary trade mechanism will apply for 10 years.

Future Outlook Is Mixed

Barring major changes in CAP programs, the outlook for Spanish production of key agricultural commodities is as follows:

Grains. Production of most grains is expected to increase moderately in a few years. Barley output, however, is likely to decline since roughly 50 percent of Spain's barley production does not meet test weight levels set by the EC.

Wheat production, particularly of durum and feed-grade wheat, will increase, encouraged by higher EC prices, subsidies and shifts from barley to wheat production.

Corn output is projected to rise to about 4.0 million metric tons in three years, encouraged by a more favorable price structure and expanded irrigation.

Rice production—formerly strictly controlled by the government—is projected to show some gains due to liberalization of production and better prices.

Olive oil. The five-year control of the relationship between consumer prices of olive oil and competing oils and the domestic consumption quota for soybean oil should prevent a decline in olive oil production. However, after five years the situation may change altogether, with a likely reduction in output of olive oil which is in surplus in the EC.

Oilseeds. With the progressive alignment of Spanish prices with substantially higher EC prices, plus Community aids, Spanish sunflowerseed production may increase from 1.0 to 1.5 million hectares by 1990.

Competition from other cash crops—corn, sunflowerseed and cotton—and seed innoculation and varietal development problems are likely to continue to deter significant expansion in currently minimal soybean production.

Cotton. The EC's threshold system of application to Spain and Greece makes it difficult to forecast how Spanish cotton production may evolve in the next few years. Theoretically, Spain has the potential to expand cotton production, but the actual amount produced will depend largely on the threshold price and on imports of textiles.

Indications are that the Spanish textile industry is likely to face keen competition from textiles imported from Portugal and other countries. In anticipation of this situation, the government is considering removal of the import duty levied on cotton to help the domestic textile industry.

Sugar. Constrained by prices substantially higher than in the EC and the limited sugar production quota assigned by the Community to Spain, sugarbeet production is not expected to increase in the next few years.

Fruits and vegetables. This is perhaps the subsector with the brightest future in the entire Spanish agricultural economy. While few gains in production are likely to be made in the next four years, the longer outlook for Spanish fruit and vegetable production is for significant expansion at the expense of non-EC members and greenhouse producers in the northern EC countries.

The major constraints to this expansion are the limited frost-free areas and irrigation water supplies.

Nuts. No significant almond production gains appear likely in the first few years following accession. However, in seven years, the EC's external tariff will no longer be applied to Spanish almonds. Although production increases cannot be ruled out then, interest in almonds is not keen among Spanish producers.

Wine. Spain is expected to reduce wine output mainly through incentives for abandonment of vineyards. At the same time, Spain will strive to improve the quality of its wines through rejuvenation of vineyards, better varieties and new production techniques.

Livestock. While beef production is likely to show a significant decline, sheep and pork production is expected to remain more or less stable in the next few years. Spain could eventually become a key supplier of high-quality lamb meat to other EC countries.

Dairy. The 5.4-million-ton milk quota assigned to Spain by the EC impedes production expansion. While the quota can be renegotiated in two years, the industry's consensus is that Spain's dairy production will remain at present levels during the next four to five years.

Poultry. Despite the negative effect of threshold prices for imported products, producers are moderately optimistic that poultry production may expand in the next few years because exports will enjoy restitutions for the first time.

Forest products. Spain has the potential to expand its production of forest products considerably. Unfortunately, this subsector is not under the CAP and the Spanish government has never had a forestry policy. Better management and production incentives will be necessary for growth to occur. ■

The author is senior agricultural specialist in the Office of Agricultural Affairs in Madrid.

Fact File

The EC's Common Agricultural Policy

The Common Agricultural Policy (CAP) forms a basic part of the European Community (EC). It can be best described in terms of three principles: common pricing, Community preference and common financing. Common pricing involves the establishment of a Community-wide price system, whereby a single level of price support is supposed to apply for each farm commodity throughout the Community. Community preference ensures that domestic products will always have a competitive advantage over the imported like product. Common financing requires the Community to fund any activity or effort that may be required to affect the Common Agricultural Policy.

CAP Relies on Price Supports

The CAP relies largely on a price support policy to maintain farmers' incomes; direct or deficiency payments are presently used only on a very limited basis. Although the method of price support varies somewhat from product to product, certain basic concepts are nearly universal.

Internal prices are maintained in two ways. First, levies and duties facing imported commodities which compete directly with Community production are set at such a level so as to ensure that those commodities cannot be sold at a price less than the EC support level. Second, intervention buying is used to withdraw excess supplies from the market and strengthen prices. Finally, export subsidies are granted by the EC to allow surpluses to be sold on the world market.

The magnitude of levies and subsidies and the extent of intervention buying are determined in most sectors by reference to three Council-mandated price levels:

—The target price (also referred to as the guide price or market price, depending on the commodity) officially represents the price farmers should receive for their production under desirable market conditions.

—The threshold price (also reference price or minimum import price), which is derived by subtracting transportation costs from the target price, represents the price below which no imports can enter into the Community.

—The intervention price (also buying-in price or reference price) is the price at which government buying is triggered. In some sectors, the Community is obliged to buy any product offered at the intervention price; in others, the Commission has some discretionary power.

How Import Levies Are Determined

Import levies are calculated by determining the lowest third-country offer price and subtracting that from the threshold price. In most sectors, the same levy is applied to all imports regardless of their c.i.f. price. Export subsidies are calculated to make up the difference between the internal price and the price on the world market. The level of the subsidy can vary by export destination.

The system described above applies with only minor variations to cereals and rice, milk and milk products, beef and veal, olive oil and sugar. Similar mechanisms are employed for fruits and vegetables, pork and wine. Price support for poultry and eggs depends entirely on import

protection and export subsidies. Production quotas are in effect in the sugar and milk sectors. In addition, there are "guarantee thresholds" in place in some sectors which in theory discourage excess production by translating one year's surpluses into lower guaranteed prices the following year. In practice, the system has never really been applied as intended.

For a few commodities, notably durum wheat, oilcrops and processed fruits and vegetables, direct or indirect subsidies are paid to EC producers and processors. In other cases, subsidies are paid to stimulate domestic consumption of EC farm products. In the case of olive oil, both producer and consumer subsidies are paid.

National Farm Prices Vary Considerably

Common agricultural prices are now expressed in European Currency Units (ECUs). Prior to April 9, 1979, (before the use of the ECU was extended to agriculture) common prices were expressed in agricultural units of account (EUA). Although agricultural prices are fixed in terms of ECU's for the Community as a whole, national farm prices vary considerably in reality.

These variations result from fluctuations in exchange rates of the various member state currencies. To avoid abrupt changes in member state prices (in terms of national currencies) as a result of these fluctuations, the EC used special conversion rates (representative or green rates) when administering the CAP. In many cases, these rates do not agree with the actual market values of the national currencies. Consequently, the use of these conversion rates results in different real price levels in most EC member countries.

To avoid disruption of national markets because of these price differences, the EC has established a system of Monetary Compensatory Amounts (MCAs). In strong-currency countries where prices are often kept higher than the Community norm, positive MCA's are applied as export subsidies and import taxes, while in weak-currency countries, where prices often drift below the normal level, negative MCA's are applied as export taxes and import subsidies.

The EC has tried various methods for getting rid of this complicated and costly system. In an effort to reduce the size of positive MCA's, in 1984 the EC Council created the "green" ECU for use in setting farm prices. The green ECU, which is still in use, is worth 3.5 percent more than the normal ECU.—*Prepared by the Office of Agricultural Affairs, U.S. Mission to the European Community, Brussels.*

European Community Will Regulate Flow of Spanish Wines

By Diego Perez de Ascanio and Edmund L. Nichols

With more area in vineyards than any other country in the world, and a centuries-old tradition of winemaking rivaling that of its European Community (EC) partners, Spain now ranks as the fourth largest wine producer in the world and the third largest exporter.

Given this successful track record, it is not surprising that Spanish wines were among the sensitive agricultural products targeted for special treatment in the difficult negotiations that preceded Spain's accession to the EC.

Because rapid integration of wine into the programs of the EC's Common Agricultural Policy (CAP) would risk disruption of the markets of other member nations, a 10-year transition period will be required before the Spanish wine sector is fully integrated into the CAP.

From the outset, Spanish wines were placed under Community market managemernt, including a ceiling for wine production.

Distillation Program Will Continue

Spain produces about 35 million hectoliters (1 hectoliter = 100 liters) of wine and a half billion kilograms of table grapes annually. Ordinary table wines account for the largest volume of production—nearly five times as much as the 6 million hectoliters of Appellation of Origin wines.

Since 1979, Spain has had a surplus of ordinary wine which has led to government-supported distillation of an average of 7 million hectoliters per year. This program has created cumbersome and costly alcohol stocks which have been exported under subsidies.

The EC Commission has set a limit on table wine production and requires distillation of the surplus once the limit has been reached. However, it will take seven years to align prices paid for distillation with those in the Community, which are currently 50 to 60 percent higher than those paid in Spain.

Community Seeks Acreage Reduction

Because of poor soil and scarce rainfall in many growing areas, and a government ban on irrigation of vineyards, Spanish vineyards yield less than half of those in France and Italy.

To reduce wine output further, the Community is offering incentives to Spanish farmers to abandon 200,000 hectares of vineyards during the next two wine seasons.

Although Spain will participate in the abandonment program, the Spanish government is cautious about extensive uprooting of vineyards in areas that lack alternatives to labor-intensive wine production.

In addition to abandonment, Spain has promised to continue to ban vineyard irrigation. At the same time, more attention will be devoted to improving the quality of wines by rejuvenating old vineyards and using better varieties.

Production Changes Necessary

Accession into the EC will force Spain to make other production changes as well. For example, the EC ban on "coupage"—blending of white and red wines—will necessitate some switches from white to red grape varieties.

Community requirements on minimum and maximum alcohol contents will force production restructuring of some north coastal light wines, which have an unusually low alcohol content owing to climatic conditions, as well as wines

Cava CODORNÍU

produced high above sea level, which consistently have an exceptionally high alcohol content. Affected areas will include such important zones as Yecla and Utiell-Requena.

Export Prospects Are Hampered

Although the Community's complementary trade mechanism allows for gradual expansion of trade, EC regulations are having some negative effects on Spanish wine exports, especially in the important European market.

As part of the gradual integration process, dismantling of customs duties on Spanish wines exported to other member countries will occur over a seven-year transition period.

However, except for its unique sherry and Malaga wines exported to other member countries, Spain will not be able to gain more of the European market because of lower Spanish prices. During the transition period, the volume of Spanish wine will be regulated to fill the gap between EC and Spanish prices.

Spanish sparkling wines produced under the "Methode Champanoise" (champagne method) have gained a strong following in export markets, currently outselling French champagne in the lucrative U.S. market.

However, in the future, at the insistence of the French, reference to "champagne method" production must be deleted from Spanish sparkling wine labels. On the other hand, the Community has denied Spain exclusive labeling rights for sherry wines from the Jerez region of Spain.

U.S. Market Eyed

While Spain awaits the outcome of the accession transition period, the wine sector is keeping an eye on the U.S. market where it hopes to build an improved distribution structure along with a reputation for quality and value. Now that sparkling wines have been successfully introduced into the United States, the Spanish hope to parallel that success with their red wines. ■

Perez de Ascanio is an agricultural specialist and Nichols is the agricultural counselor in the Office of Agricultural Affairs in Madrid.

Rising Greek Soybean Use Favors U.S. Imports

By Miles Lambert

Greece could be on the verge of significantly boosting its imports of soybeans, most of which to date have come from the United States. The key to realizing this growth is in Greece's hog sector, as well as the soybean crushing and mixed-feed industries that support it.

Greece's soybean imports could reach 335,000 tons by 1987, a third higher than in 1985. Just as development of Greece's poultry industry in the 1960s and early 1970s fueled the country's imports of soybean meal, so the expansion of the hog industry could make for larger imports of soybeans, especially in light of the underutilization of Greece's mixed feed industry.

Before 1974, Greece imported soybean meal, not soybeans. The original impetus for those imports, which had reached 75,000 tons in 1974, had been the burgeoning Greek poultry industry, the sector most conducive to rapid modernization. The Greek government hoped to meet growing demand for meat with more domestic output and fewer imports.

A Shift to Pork Output

The momentum toward pork output and consumption started in the second half of the 1970s. The Greek Pork Meat Producers Association used a variety of promotional measures to gain acceptance for their product. They also secured a place for pork in Greek fast food services, which now account for roughly one-tenth of Greek pork consumption.

Traditional souvlaki stands now use pork almost exclusively for their skewered meat. The pork producers association was also instrumental in having pork days instituted. On certain days of the week, restaurants were required to offer some pork dishes.

As a result of these efforts, Greek per capita consumption rose from 6.1 kilograms in 1970 to 21.2 kilograms in 1983 at a time when total meat consumption grew from 47.7 to 72.6 kilograms. Pork production in that period increased from 52,000 tons to 148,000 tons, compared to 304,000 and 492,000 tons, respectively, of total meat output.

Greek hog producers were also benefiting from improved mixed feeds available at encouraging prices. Feed compounders, who had geared up to supply the growing poultry industry, were finding that production of mixed feed for hogs was an efficient way of utilizing excess capacity.

The compounders made use of grain purchased at subsidized prices from the government grain collection agency. Most of the corn, like all of the soybean meal, had to be imported, but it was more advantageous for Greece to import feed ingredients than meat.

Impact of EC Accession

During the second half of the 1970s, Greece's prospect of achieving full membership in the European Community (EC) by 1981 threatened Greece with a growing import bill for both meat and feedstuffs because of EC requirements to which Greece would be subject.

Notably, Greece would have to buy more beef from the EC and less from neighboring Yugoslavia, a lower cost producer. At the same time, Greek imports of non-EC corn would be subject to EC import levies. Consequently, it became imperative for Greece to develop its hog sector, as well as to expand its corn production.

The outlook for significant growth in Greek red meat production is largely confined to pork. The country's traditional sheep and goat sector is presently hindered by the declining availability of shepherds. And beef production is expensive relative to other EC producers.

Feed Compounders Look to Pork Sector

Mixed-feed compounders are highly aware of the potential in the pork industry. Unlike the poultry industry, which is fully industrialized, there is still significant room for modernization of feed practices in the pork sector.

Improvement in the efficiency of pork marketing, especially the use of byproducts, eventually could result in lower prices for pork vis-a-vis competing meats. The potential for Geek pork is indicated by the increase in pork imports from 2,000 tons in 1976 to nearly 60,000 tons in 1984 (mostly from EC suppliers).

Traditionally, corn has been the preferred energy source for Greek feed compounders. Imports reached a high of 1.2 million tons in 1979, when Greek production amounted to roughly 750,000 tons. Use of high-yielding varieties on irrigated land enabled Greek corn production to mount beginning in the late 1970s.

Greece became a net exporter of corn by 1984, when production reached a record 2 million tons, with exports at about 250,000 tons (to the EC, mostly for the starch industry). Further needs brought about by livestock sector developments are certain to be met by domestic corn production.

Greece is not likely to become a soybean producer. The competition of corn, cotton, sugarbeets and, lately, sunflowerseed, for the irrigated land that would be necessary to the task, make the prospect most unlikely in the foreseeable future.

Consequently, imports of soybeans will remain indispensable to livestock production in Greece. Near-term import growth, however, might depend as much, if not more, on soybean product and mixed-feed exports as on Greek livestock production increases.

A new development, however, is expected to contribute to expanded domestic consumption of soybeans. The crushing firm, Soya Hellas, is establishing a new section within the company to process full-fat soybeans, which will be targeted for sale in Greece this summer.

Soybean Crushing Plants Underutilized

The first two Greek soybean crushing plants were constructed in the mid-1970s, giving the country an annual crushing capacity of 280,000 tons. Two more plants were added in the early 1980s, nearly doubling capacity to 540,000 tons.

Black Star

However, in 1985, only two of the four plants actually crushed soybeans. With soybean imports at 250,000 tons in 1985, capacity is still significantly underutilized.

The main customer of the soybean crushing plants is the Greek mixed-feed industry, which is dominated by three producers: Elviz, with a capacity of about 170,000 tons annually; Viozokat, with about 150,000 tons; and Agroinvest, with about 150,000 tons.

The Agroinvest facility, which is located at seaside to receive overseas shipments, is attached to a soybean crushing plant and is not yet fully operational. Elviz, meanwhile, is expanding its annual capacity by about 60,000 tons.

Owing to excess capacity for which domestic livestock producers had no need, Viozokat and Elviz began exporting mixed feeds during the 1970s, in some years shipping as much as 40 percent of production abroad.

Among these firms' customers are the centrally planned countries of Eastern Europe (paying in hard currency) and, increasingly, countries of the Middle East. Agroinvest, partly funded with Lebanese capital, was exporting both soybean meal and mixed feeds to the Middle East from inception.

Soybean Oil Disposal Hinders Crushing

A major hindrance to full utilization of Greece's soybean crushing capacity has been the burdensome disposal of the soybean oil produced. Since 1974, Greece has required that the oil be exported, except for small amounts purchased by the government.

Seed oils compete with olive oil, an important crop to many Greek farmers, and thus a politically sensitive one. Nevertheless, according to its accession agreement with the EC, Greece was to liberalize its vegetable oil market, and rescind the seed oil export requirement as of Jan. 1, 1986.

Greece is currently seeking a postponement and has yet to comply with the January 1 deadline. With the seed oil export requirement out of the way, crushing plants would find their oil stocks more manageable, which would likely encourage greater use of crushing capacity.

The United States has been the primary beneficiary of Greece's expanding soybean crushing industry. In 1985, almost four-fifths of the 250,000 tons of soybeans imported came from the United States. The remainder came from Argentina.

Imports from the United States have been conditioned by the strong, traditional preference of Greek feed compounders for the quality (high protein content) of the meal produced from U.S. beans. If U.S. shippers are attentive to holding that advantage vis-a-vis cheaper Argentine soybeans, the United States stands to gain from Greece's further use of its soybean crushing capacity. ■

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Country Briefs

China

Grain Output To Recover After Slippage Last Year

China's grain production is expected to recover in 1986 after slipping last year for the first time in this decade. The procurement policies of 1985/86 were intended to produce a moderate reduction in grain outturn. However, excessive rain and flooding in the northeast, dryness in other parts of China, and larger-than-expected cuts in area reduced grain production by a margin that sparked some concern in China.

The 1986/87 policies are termed a refinement of the more market-oriented policies introduced in 1985/86. The overall returns to grains will be higher this year. The result is expected to be a further expansion of wheat area and production. Plantings of corn and other feed grains will return close to 1984 levels, and rice area will partially recover. A further shift to single-crop rice production, coupled with the continued emphasis on oilseeds and other cash crops, will also reduce the expansion of rice area.

Reflecting the bumper harvests of 1984, China entered the world market as a major feed grain exporting nation in 1984/85. Due to national emphasis on earning foreign exchange, corn exports are likely to continue this year despite a 13-percent reduction in production. Likewise, in spite of definite feed grain shortages in southern China, there is as yet no indication that China will have any major imports in 1986/87. Wheat imports are expected to rebound slightly from the reduced levels of 1985/86 while rice exports should remain at around 1 million metric tons.—*David M. Schoonover, Agricultural Counselor, Beijing.*

Japan

U.S. Wines Do Well Despite Cut in Overall Imports

Japanese imports of bottled wine have fallen sharply since November 1985 as a result of adverse publicity about diethylene glycol found in European wines and locally bottled wines which contained wine imported in bulk from Europe. But even as total wine imports during the four-month period from November 1985 to February 1986 plunged 39 percent below year-earlier imports, imports from the United States rose 78 percent. As a consequence, the U.S. market share rose from 4.3 percent to 12.5 percent.

The weaker dollar has made U.S. wines much more attractively priced in Japan. However, not all of the change in the exchange rate has been reflected in the retail prices of all U.S. wines. Some importers have chosen to increase distribution margins instead, but this has also encouraged more aggressive marketing for U.S. wines since wider margins mean higher profits.

In addition, the Wine Institute began an ambitious marketing program in Japan in July 1985, which has increased interest in California wines on the part of importers, distributors and consumers. Also, since California wines were not touched by the wine scandal, importers and distributors have been eager to buy at least part of their wine from California.—*Bryant Wadsworth, Agricultural Counselor, Tokyo.*

Sri Lanka

Wheat Consumption Catching On

While rice remains the staple food grain in Sri Lanka, wheat has become a fixture in the diet of a certain segment of the population, particularly workers and laborers. Since Sri Lanka is not a producer of wheat, all its requirements are met through government imports. In fact, wheat is the principal commodity imported by Sri Lanka on both a commercial basis as well as through Title I of Public Law 480.

Wheat is a part of the traditional diet of Sri Lanka's Tamil population in the northern region and on tea estates. However, it is not the staple diet of the majority of the population. But a preference for wheat products is continuing to expand among the affluent member of society. Wheat consumption during the 1985 marketing year totaled 640,000 tons, up nearly 13 percent from the year before. A further gain in consumption to perhaps 660,000 tons is expected in 1986.

Approximately 60 percent of the available wheat flour is used for making bread. The balance is used for confectionery products, chapatis and raw and instant noodles. All wheat continues to be milled exclusively for the government and turned over to the Food Commissioner for distribution through a network of approximately 5,000 consumer cooperative societies.

Through promotional efforts of U.S. Wheat Associates, the Sri Lankan army has shown an interest in wheat products other than bread, particularly noodles, and a production facility has been installed in Sri Lanka. Noodles are also being served to Sri Lankan government officials—another step towards increased wheat consumption.—*W. Garth Thorburn, Agricultural Counselor, New Delhi.*

France

Wine Exports Reach New Record in 1985

French wine exports reached a record high of 11.9 million hectoliters in 1985, up 4 percent from 1984. Their value, at roughly $1.9 billion, was up 18 percent. The increase was mainly due to larger sales of champagne and other high-quality wines, which accounted for more than three-fifths of the increase in volume and 91 percent of the rise in value. Sales of ordinary table wine, however, remained stagnant in volume relative to 1984.

Wine sales made a major contribution to French agricultural trade last year. The export value was nearly eight times the value of imports, producing a surplus of roughly $1.7 billion. This surplus ranked second behind that of grains and represented 44 percent of France's agricultural trade surplus.

On a volume basis, West Germany remained France's major export market for wines last year, followed by the United Kingdom. The United States and Belgium/Luxembourg were third and fourth, respectively.

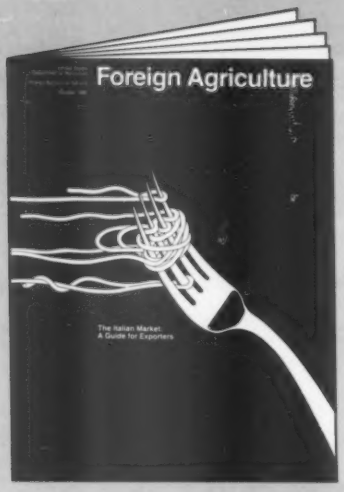
The United States was actually France's top wine market on a value basis in 1985, reflecting the larger percentage of champagnes and quality wines sold to the United States. Sales to the United States were up 17 percent from 1984 and represented more than a fifth of the value of French wine exports. Wine is a key commodity for French trade with the United States, representing 44 percent of French agricultural exports (and 5 percent of French total exports) to the United States in 1985.—*Ernest Koenig, Agricultural Counselor, Paris.*

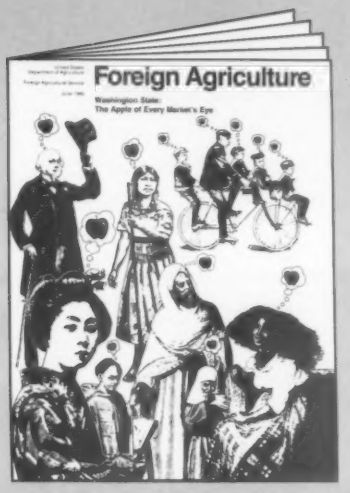
Singapore

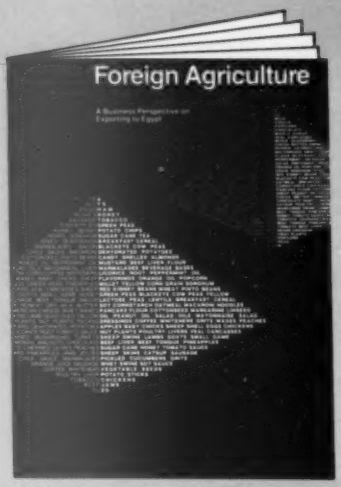
Wine/Salad Bar To Open

Salad bars and wine bars are new to Singapore's restaurant scene—and their presence may in time offer some potential for U.S. exporters. Right now, however, managers of these outlets are purchasing produce and wines largely from other sources due to the relatively high price of U.S. goods. Efforts to keep costs and prices to a minimum appear to be more important than product quality in managers' purchasing decisions.

Australia currently is the chief source of supply for iceberg and romaine lettuces and cherry tomatoes, and shares the honors with local suppliers for cucumbers. Holland supplies Belgian endive and butter lettuce and Italy is the supplier for red frieze and chicory. Local suppliers provide most of the mushrooms.—*Peter O. Kurz, Agricultural Trade Officer, Singapore.*







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